

PHILLIPS
PETROLEUM
COMPANY
 50TH
ANNUAL
REPORT 1967



In addition to the widely known PHILLIPS 66 shield, your Company has many valuable trademarks for its products. Many of them identify discoveries and improvements resulting from the Company's broad research and development program. Some of these trademarks are listed and symbolically illustrated here:



SIXTY-SIX automotive and aviation gasolines



PHILJET A-50 aviation turbine fuel



PHILHEAT heating oils



PHILGAS liquefied petroleum gas



TROP-ARTIC motor oil



PIER 66 franchised marina services



PHILGRO, PHILLIPS 66 fertilizers



PHILBLACK carbon black



PHILPRENE, SOLPRENE, CIS-4 synthetic rubbers



MARLEX plastics



PAKSTER beverage cartons and cases



TOTESTER plastic tote boxes



SEAL KING milk containers



PLASTIKING, SCULPTURA plastic bottles



VARI-PAK plastic containers



NESTYLE, PLASTYLE food containers



BULKAN, CHIPKAN coated board containers



SEE-SAFE plastic bags, film, and containers



MAR-BAND film label sleeves



20 BELOW freezer wrap



POLY SLIK release paper



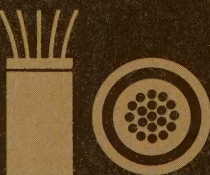
MAR-SHEEN polypropylene decorative ribbon



PHILDUCT corrugated conduit
DRISCOPIPE plastic pipe



RENEER, RENATA, ELASTOTHERM, ELASTOPAK, GLASSCLEAR vinyl film



ULTRYL polyvinylchloride resins



MARVESS olefin fibers



QUINTESS polyester fibers



PHILLIPS 66 nylon fibers



LOKTUFT carpet backing



SURFLINE outdoor furniture



SOLTROL paint solvent



SCENTINEL gas odorants



SULFOLE mercaptans

CONTENTS

HIGHLIGHTS—FINANCIAL AND OPERATING.....	2
LETTER TO THE STOCKHOLDERS.....	2
OPERATIONS	
Exploration and Drilling.....	4
Production.....	5
Natural Gas.....	5
Refining of Crude Oil and Natural Gas Liquids.....	6
Supply and Transportation.....	6
Petroleum Products Sales.....	6
Chemicals.....	7
Research and Development.....	9
People.....	10
PICTORIAL HIGHLIGHTS.....	11
FINANCIAL AND STATISTICAL REVIEW	
Financial Review.....	19
Source and Disposition of Funds.....	19
Charts.....	20
Balance Sheet.....	21
Income Statement.....	22
Accountants' Report.....	22
Notes to Financial Statements.....	23
Ten-Year Statistics.....	24
DIRECTORS AND OFFICIALS.....	26
SUBSIDIARIES, AFFILIATES, AND OFFICES.....	28

"Phillips," "the Company," "we," and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated.

Effective January 1, 1967, Phillips Petroleum Company changed its consolidation policy to include in financial statements the accounts of all partly owned companies in which more than 50% interest is held. In accordance with accepted practice, 1967 operating data of these companies also are included in the statistical tables and text of this report, and 1966 financial and operating data have been adjusted to reflect this new consolidation policy. Where so indicated, operating data also include the activities, in proportion to the Company's stock interest, of non-consolidated companies owned one-third or more.

A listing of consolidated subsidiaries and principal affiliates owned one-third or more, showing for each company our interest and its principal business activity, appears on page 28.

A Statistical Supplement to the 1967 Annual Report, presenting a more detailed, 10-year analysis of financial and operating statistics than appears in this report, has been prepared. Copies of the supplement may be obtained upon request to Mr. Robert N. Sears, Vice President and Assistant Secretary, Phillips Petroleum Company, 80 Broadway, New York, New York 10005, or to Mr. O. W. Armstrong, Secretary and Treasurer, Phillips Petroleum Company, Bartlesville, Oklahoma 74003.

HIGHLIGHTS

FINANCIAL

	1967	1966
Gross income.....	\$2,012,200,000	\$1,784,400,000
Net income.....	\$ 164,000,000	\$ 145,500,000**
Net income per share.....	\$ 4.74	\$ 4.35**
Dividends paid.....	\$ 81,100,000	\$ 73,500,000
Dividends paid per share.....	\$ 2.35	\$ 2.20
Capital expenditures.....	\$ 279,800,000	\$ 579,700,000
Long-term debt at year end.....	\$ 690,000,000	\$ 660,300,000
Total assets at year end.....	\$2,787,200,000	\$2,731,100,000

OPERATING*

Crude oil and natural gas liquids produced—net barrels daily.....	378,000	367,000
Crude oil refined—barrels daily.....	389,000	348,000
Petroleum products sold—barrels daily.....	637,000	582,000
Natural gas sold or consumed—thousands of cubic feet daily.....	3,171,000	3,051,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

**Includes extraordinary gain of \$7,100,000 or 21 cents a share.

TO THE STOCKHOLDERS

Your Company had record earnings for 1967 of \$164,000,000, or \$4.74 a share. This was an increase of 13½% from 1966 reported earnings of \$144,500,000 and 18½% greater than 1966 adjusted earnings of \$138,400,000, excluding an extraordinary gain in that year. Gross income exceeded two billion dollars for the first time. Effective with the dividend paid June 1, 1967, the annual rate was increased 20 cents to \$2.40 a share.

Contributing to the higher 1967 earnings were increases in crude oil, natural gas liquids, and natural gas production, refined products sales, and tanker revenues. Prices for raw materials produced and refined products sold were higher. Gross income from chemicals and related products increased. Prices for most principal chemical products were lower.

The year was a significant one for the Company in exploration and drilling, highlighted by rapid development of Alaskan crude oil reserves, finding of large oil reserves in Nigeria, the Kuwait Neutral Zone, and offshore Iran, discoveries of important North Sea gas fields, and confirmation of Texas gas reserves of probable major proportions.

Crude oil prices in the United States increased slightly in 1967, but were still well below prices 10 years earlier. Petroleum product prices continued to improve. Ten years ago the average gasoline price to the U.S.

consumer, exclusive of direct taxes, was 22.1 cents a gallon. During 1967, the average price for a much higher quality gasoline was 22.6 cents a gallon, an increase of only half a cent a gallon. During this 10-year period, direct gasoline taxes, which now amount to almost a 50% levy on the motorist's gasoline purchases, went up one and three-quarters cents a gallon.

Nation-wide demand for petroleum products rose 3.8% in 1967 and is expected to increase 4% in 1968. Total demand in 1967 increased 4.6%, reflecting higher exports of crude oil and petroleum products because of the Middle East outbreak.

That the industry was able to meet these unexpected higher demands was due in large part to the previous investment of many billions of dollars in exploration and in production and transportation facilities. To supply the needs for oil and gas forecast for the future, the industry must expend additional very large sums. Experience has proved that adequate incentives are necessary to cause money to be risked on exploration. One of these needed incentives is adequate prices for crude oil and petroleum products. These prices must rise to offset increasing costs and provide a fair return on investments.

Another essential incentive for exploration is the 27½ percentage depletion provision of Federal tax law. This measure is again under attack by critics who view

its reduction as a means of increasing tax revenue rather than recognizing its importance as a minerals development provision. Critics cite the industry's rising earnings, but these earnings have not risen in proportion to the investments that have been made by the industry to meet growing demand, and the industry's return on capital continues to be lower than the average for all major industries.

In the case of natural gas as well as crude oil, producers must be assured of a price high enough to influence them to search for new reserves. Demand for natural gas has been rising, creating a need for more reserves. Its increasing desirability as a fuel will further raise demands in coming years. Under Federal Power Commission regulation, natural gas producers are not receiving a sufficient price incentive to spur an adequate search for new reserves. Moreover, producers have no assurance that the Commission will allow their contracted sale price to continue in effect.

Annual additions to the nation's proved reserves of both oil and gas have not been sufficient to keep pace with the rising rates of demand, and the ratios of these reserves to production have continued to trend downward. The industry drilled 11% fewer wells in the United States in 1967 than in 1966. Exploratory wells drilled to find new reserves declined 14% in 1967, continuing a downward trend since 1956.

The Company and the industry have spent substantial sums on research and for projects to conserve water resources and prevent air pollution. Control of pollution is expensive and much of it must eventually be paid for by the public through higher consumer prices. Therefore, the programs of prevention require careful consideration to be certain they are necessary and will serve the purpose intended.

While the recent regulations concerning overseas investments issued by the U. S. Department of Commerce will cause some problems and result in foreign borrowings, we do not believe they will greatly affect the Company's present international expansion program.

We expect the Company's earnings to continue upward. Prices for crude oil, natural gas, petroleum products, and chemical products are expected to improve in 1968. Production of crude oil and natural gas liquids will continue to increase. Revenue from both domestic and overseas chemical investments is expected to rise. Large chemical projects, which have detracted from earnings during construction and start-up stages, will begin contributing to profits. Phillips has varying interests in more than \$500 million of projects, other than exploration and drilling, which were completed in 1967 or under way at year end. Most of these projects, which are in 17 countries, are based on product and process developments from our research programs.

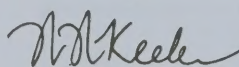
As the Company's investments become more widespread, they are subjected to more outside influences. In Nigeria, crude oil production has been delayed pending settlement of internal political conditions. Devaluation of the British pound in November, while not materially affecting Company earnings, caused a delay in negotiations for sale of North Sea gas.

The case pending in the United States District Court in Los Angeles wherein the United States seeks to require the Company to divest itself of the properties acquired from Tidewater Oil Company in July 1966 continues in pretrial status with no trial date set.

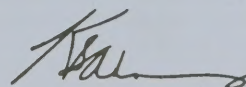
The voluntary conversions in 1967 of the Company's 4¼ % Convertible Subordinated Debentures due 1987 and the call of the remaining \$102,000,000 of these debentures on February 23 caused a reduction in debt and an increase in stockholders' equity. This strengthened the Company's financial position and provided an enlarged and sounder base for more rapid future growth.

We gratefully acknowledge the support of stockholders, loyalty of customers, and efforts and ability of employees, which were important factors in the Company's 1967 successes. We believe your Company through its employees has an unmatched resource of built-in technical and operating knowledge to be drawn upon in developing the Company's future.

For the Board of Directors,



PRESIDENT AND CHIEF
EXECUTIVE OFFICER



CHAIRMAN
BOARD OF DIRECTORS

Bartlesville, Oklahoma
March 26, 1968

EXPLORATION AND DRILLING

Oil and Gas—Highlighting our exploration and drilling in 1967 were extensive development of oil fields in the Cook Inlet of Alaska; confirmation of significant deep Anadarko Basin gas reserves in Texas; a large oil producer which found three additional productive formations in a field offshore Iran; four oil discoveries in Nigeria; discovery of two significant gas fields in the North Sea; discovery of a large new oil field in the Kuwait-Saudi Arabian Neutral Zone; and start of development of the Alamein Field in Western Egypt. Following is a summary of our principal discoveries, field extensions, and developments in 1967:

UNITED STATES

ANADARKO BASIN—A field believed to contain major gas reserves in Hemphill County, Texas, was confirmed by a well which tested at an open flow rate of 220,000,000 cubic feet of gas daily from a deep pay section in a 28,500-acre full-interest tract.

COOK INLET, ALASKA—Significant development was carried out in two oil fields totaling 53,500 acres on 25% interest leases in Cook Inlet waters. In Granite Point Field, 11 producing wells had been completed at year end from two stationary operating platforms; individual well flow rates ranged from 1,278 to 9,200 barrels of oil a day. In Middle Ground Shoal Field, where a second stationary platform was completed, eight producing wells were completed by year end, testing oil at individual rates ranging from 150 to 5,721 barrels daily. We acquired the entire proved shallow gas reservoir in North Cook Inlet Field and began constructing a platform to develop the field.

ROCKY MOUNTAINS—At year end, five full-interest wells producing a total of more than 3,600 barrels of oil a day had been completed in a development program around an earlier oil discovery on a 24,300-acre block in Summit County, Utah.

OFFSHORE LOUISIANA—A half-interest development well proved additional gas and gas-condensate reserves under 53,230 part-interest acres in Block 28 and Block 32 Fields, Ship Shoal Area.

OUTSIDE UNITED STATES

OFFSHORE IRANIAN WATERS—Three additional productive formations were found by a well which flowed an aggregate of 7,778 barrels of oil a day from four zones and proved commercial capabilities of a field discovered in the previous year. The field is on one of four blocks comprising a one-sixth interest 1,970,000-acre exploration area.

NIGERIA—Four additional oil discoveries testing at individual rates up to 2,451 barrels a day were made on three 50% interest tracts totaling 1,300,000 acres in the Niger River Delta area. Seven oil fields and one gas field have been discovered on this acreage. A pipeline was completed in preparation for exporting the oil when Nigeria's internal political conflicts are resolved.

NORTH SEA—A major natural gas field was discovered by a well completed early in the year on one of two adjoining 35% interest blocks totaling 121,600 acres in the United Kingdom sector of the North Sea. The discovery, approximately 20 miles off the English coast, tested an aggregate of 87,000,000 cubic feet of gas a day from thick pay zones of four separate reservoirs. Another significant gas field was discovered about 2¼ miles north on the adjacent block, but on a different geological structure, by a well which flowed gas at rates totaling 90,000,000 cubic feet per day from two separate zones.

NEUTRAL ZONE—An oil discovery which flowed at a rate of 22,885 barrels of oil a day was made by 37% owned American Independent Oil Company near the north boundary of its half-interest Kuwait-Saudi Arabian Neutral Zone concession. Successful development drilling was started, with 14 wells drilled in 1967. Deliveries from this field into the existing main pipeline system were scheduled to start in the first quarter of 1968.

EGYPT—Development drilling was started in December in the Alamein Field discovered in 1966 on an 18,000,000-acre concession in Western Egypt equally owned by Phillips and a United Arab Republic corporation. Construction was started on a pipeline from the field to the coast 21 miles away.

Expenditures—Capital and exploration expenditures to acquire, find, and develop oil and gas reserves were \$139,900,000, compared with \$141,700,000 in 1966.

Drilling Statistics—Although 1967 was an outstanding year for the Company in finding and developing oil and gas reserves, we drilled fewer exploratory and development wells than in 1966. Drilling statistics* for the past two years follow:

	Exploratory		Development		Total	
	1967	1966	1967	1966	1967	1966
UNITED STATES						
Gross wells.....	34	27	206	262	240	289
Net wells.....	17	14	80	116	97	130
Oil.....	1	2	42	64	43	66
Gas and gas condensate	2	4	26	35	28	39
Dry holes.....	14	8	12	17	26	25
OUTSIDE UNITED STATES (net wells)						
Canada.....	10	16	20	23	30	39
Latin America.....	—	1	—	26	—	27
Middle East.....	1	1	2	1	3	2
North Africa.....	1	3	1	5	2	8
Nigeria.....	6	1	4	5	10	6
Australia.....	—	3	—	—	—	3
Europe.....	2	5	1	3	3	8
Total.....	20	30	28	63	48	93
Oil.....	5	4	16	46	21	50
Gas.....	3	7	8	10	11	17
Dry holes.....	12	19	4	7	16	26

Leaseholds—Oil and gas acreage* held at year-end 1967 and 1966 is shown below:

	1967	1966
UNITED STATES		
Developed and undeveloped—gross.....	5,422,000	5,757,000
Undeveloped—net.....	3,251,000	3,584,000
Developed—net.....	1,082,000	1,082,000
OUTSIDE UNITED STATES (net acreage)		
Canada.....	3,563,000	3,476,000
Latin America.....	1,910,000	2,259,000
Middle East.....	2,102,000	638,000
North Africa.....	16,851,000	19,192,000
Nigeria.....	1,547,000	1,547,000
Australia.....	16,978,000	26,690,000
Europe.....	1,238,000	1,234,000
Total, outside U. S.....	44,189,000	55,036,000
Developed, outside U. S.....	210,000	201,000

*Includes statistics, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

New acreage acquisitions in the U. S. included oil and gas leases in the Cook Inlet of Alaska, the Green River and Powder River Basins of Wyoming, the Anadarko Basin of Oklahoma, and the Gulf Coast area offshore Louisiana. Geophysical exploration has been conducted on these holdings.

Outside the U. S. we acquired one-third interest in a 3,200,000-acre concession in Abu Dhabi, one of the Trucial Coast Sheikdoms of the Arabian Peninsula, and began geophysical exploration.

PRODUCTION

Liquid Raw Materials—Net production of liquid raw materials increased 3% to an average of 377,600 barrels a day. A 5% increase in domestic production more than offset a small decrease in production outside the U.S.

LIQUID RAW MATERIALS PRODUCED	Net Barrels Daily*	
	1967	1966
UNITED STATES		
Crude oil—total.....	134,800	127,900
Texas.....	54,400	52,800
Louisiana.....	28,300	24,900
Oklahoma.....	20,000	22,400
New Mexico.....	10,100	10,300
Alaska.....	3,900	200
Kansas.....	3,600	4,100
All other states.....	14,500	13,200
Natural gas liquids—total.....	132,100	125,200
All liquids—total.....	266,900	253,100
OUTSIDE UNITED STATES		
Crude oil—total.....	101,400	104,700
Canada.....	9,000	8,300
Latin America.....	34,000	36,100
Middle East.....	33,000	37,200
North Africa.....	25,400	23,100
Natural gas liquids—total.....	9,300	9,600
All liquids—total.....	110,700	114,300
WORLD-WIDE		
Crude oil.....	236,200	232,600
Natural gas liquids.....	141,400	134,800
All liquids.....	377,600	367,400

*Includes production, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

The increase in domestic output was due mainly to rising liquids production from Alaska, and, as a result of the Middle East crisis, greater allowable production rates for several months in the Company's principal producing states. Reduced crude oil production from our Middle East and Libyan interests, resulting partly from the crisis, was the main cause of a slight decrease in liquids production outside the U. S. Internal political problems in Nigeria deferred start of crude oil production from large reserves in that country. In June, the Algerian Government placed all petroleum industry producing

operations under a Government body. Since then our oil revenue has been credited in Algerian money in an Algerian bank and restricted to use in Algeria.

Unitization and Assisted Recovery—Crude oil production assisted by injection of water, natural gas, or steam into formations was 24% of our total domestic oil production. We continued to emphasize participation with other producers in assisted recovery units to produce oil which otherwise would be left in the ground, and joined in 25 of these projects.

Natural Gas Liquids Plants—At year end Phillips held interests in 59 natural gas liquids extraction plants in the U. S., 38 of which we operated. Of the total, 28 were wholly owned, 29 were jointly owned, and two were net-profit interest plants.

A 65% interest plant to extract approximately 17,000 barrels of liquids daily began operation near Houston, Texas. Over half of this plant's production is ethane which is utilized in a new 65% interest ethylene unit at our Sweeny, Texas Refinery. Construction of a wholly owned natural gas liquids extraction plant in New Mexico began. Expansions and processing adjustments were made at several plants to raise output of ethane and propane, which are in growing demand.

In Canada, a 50% expansion of the Empress, Alberta, natural gas liquids extraction plant of 45% owned Pacific Petroleum Ltd. was completed in December, raising daily capacity to 22,800 barrels.

Construction began on jointly owned facilities to extract and process natural gas liquids from concessions in Lake Maracaibo, Venezuela.

NATURAL GAS

Income and Volume—Revenue from natural gas sales rose 6%. Natural gas and helium revenues and volumes sold and consumed world-wide* were:

	1967	1966
UNITED STATES		
Gas revenues.....	\$124,400,000	\$117,500,000
Average gas price per thousand cubic feet..	\$.1537	\$.1514
Gas sold or consumed—thousands of cubic feet daily.....	3,051,000	2,950,000
Helium revenues.....	\$ 12,300,000	\$ 11,500,000
Helium sold—cubic feet daily.....	2,780,000	2,800,000
OUTSIDE UNITED STATES		
Gas sold or consumed—thousands of cubic feet daily.....	120,000	101,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

At year end, the Federal Power Commission's first area rate case decision, covering the Permian Basin Area of West Texas and southeastern New Mexico, was

awaiting action on appeal in the United States Supreme Court. The case was instituted in 1960. The South Louisiana area rate proceeding was before the Commission for decision, and the Hugoton-Anadarko and Texas Gulf Coast area rate proceedings were ready for decisions by the respective hearing Examiners. As authorized by Commission regulations, producers and distributors have held meetings with the aim of reaching agreement on recommendations to the Commission on area prices for these three areas. No decisions have been reached.

Essentially all our gas reserves in the U. S. are either contracted for sale or committed to use as feedstock and fuel.

Liquefied Natural Gas—A 15-year contract was signed which provides that Phillips, with 70% interest, and another company will ship an average of 140,000,000 cubic feet of liquefied natural gas a day from the Cook Inlet area of Alaska to Japan to supply two Tokyo utility companies. Shipments are scheduled to begin in mid-1969. Construction began on a plant to liquefy the gas, and on two specially designed refrigerated ocean tankers to transport the liquefied product.

Canadian Natural Gas—Phillips has an interest in Canadian natural gas production through its 45% stock interest in Pacific Petroleum Ltd. Pacific has large, relatively untapped gas reserves and is discovering new reserves, and markets for the gas are developing rapidly. During 1967 Pacific's natural gas output increased 20%.

REFINING OF CRUDE OIL AND NATURAL GAS LIQUIDS

Throughput—The daily average barrels of crude oil and natural gas liquids run through our refineries* were:

	1967	1966
UNITED STATES		
Crude oil.....	335,000	292,000
Natural gas liquids.....	162,000	159,000
OUTSIDE UNITED STATES		
Crude oil and natural gas liquids.....	56,000	58,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

Cost Savings—Steps taken to reduce costs and increase yields of higher value products included installation of up-to-date processing facilities and of advanced complete computer control systems developed by Company technologists.

Air and Water Purification—Under our programs to prevent pollution of air, water, and land, six principal plant projects were completed and 10 were under construction at year end.

Sulfur Removal—American Independent Oil Company, 37% owned, began construction of a large sulfur extraction plant at its Kuwait Neutral Zone refinery. The new plant will increase the value of fuel oil produced in the refinery by reducing its sulfur content from over 4% to a premium level of less than 1%. The new unit will recover daily 275 tons of sulfur which is in critically short supply in world-wide markets.

In the U. S., a sulfur removal unit was completed at the Sweeny Refinery, and construction began on similar units at the Borger, Texas, and Kansas City refineries.

SUPPLY AND TRANSPORTATION

Tanker Operations—Revenue from operations of our five foreign flag tankers increased several-fold. The rise came mainly from diversion of tankers to longer routes and increases in tanker rates as a result of the closing of the Suez Canal. Our two U. S. flag tankers were used to transport growing amounts of our Alaskan crude oil to the West Coast.

Crude Oil Supply—World-wide dislocations of crude oil supplies resulting from the Middle East crisis made it necessary to arrange exchanges of crude oil to meet requirements of our Avon Refinery in California and the English refinery of a 50% owned affiliate. These were the only two of our refining interests where supplies were affected.

Crude oil pipeline systems were enlarged to enable greater economic supply of crude oil to the Kansas City, Kansas, and the Woods Cross, Utah, refineries.

PETROLEUM PRODUCTS SALES

Sales Results—Our world-wide petroleum products sales volume increased 9% over 1966. A portion of this increase resulted from sales for a full year in the Western U. S. through properties acquired from Tidewater Oil Company in July 1966. Excluding this factor, however, the total volumes sold both domestically and world-wide were higher than for any previous year. Sales of major products* were:

	Barrels Daily	
	1967	1966
UNITED STATES		
Automotive gasoline.....	252,000	222,000
Aviation fuels.....	36,000	25,000
Distillates.....	111,000	97,000
Liquefied petroleum gas.....	124,000	135,000
All other products.....	43,000	38,000
Total U. S.....	566,000	517,000
OUTSIDE U. S.....	71,000	65,000
WORLD-WIDE.....	637,000	582,000

*Includes sales, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

Our average realized wholesale price for automotive gasoline in the U. S. was higher than in 1966. Generally better margins for Phillips 66 jobbers and dealers prevailed because of price action initiated by Phillips in February.

Our price realizations from liquefied petroleum gas, distillate sales, and aviation fuels also were higher in 1967. Total liquefied petroleum gas sales volume, however, was lower due primarily to warm weather experienced in the first quarter of the year, and the reduction of our purchases of supplementary supplies for resale.

Sales volume of motor oils was higher, and prices improved in the latter half of the year. Tire, battery, and accessory sales value increased.

U. S. Sales Advances—With entry into Alaska, Phillips in its 50th year extended its service station marketing to all 50 states.

In anticipation of continued substantial growth in automotive travel over interstate highways and free-ways, we acquired additional sites along routes under construction or planned and built more service stations along completed roadways.

Outside U. S.—Sales of Phillips Petroleum Products Limited in the United Kingdom rose to a record average of 29,000 barrels daily, and realized prices were higher. This company acts as sales agent for distillates and fuel oil produced by 50% owned Phillips-Imperial Petroleum Limited. Phillips sold its 95% interest in Phillips Oil Products Ltd., which conducted marketing in Australia.

CHEMICALS

BASIC AND INTERMEDIATE CHEMICALS ...

Sales—World-wide sales* of the Company's principal chemical products were:

	1967	1966
UNITED STATES		
Plastic resins—pounds.....	156,600,000	182,300,000
Ethylene—pounds.....	607,700,000	562,800,000
Synthetic rubber—long tons.....	71,000	75,000
Carbon black—pounds.....	189,900,000	200,300,000
Fertilizer—tons.....	1,106,000	1,125,000
Cyclohexane—gallons.....	50,500,000	59,100,000
OUTSIDE UNITED STATES		
Plastic resins—pounds.....	40,800,000	26,500,000
Ethylene—pounds.....	1,700,000	300,000
Synthetic rubber—long tons.....	17,000	15,000
Carbon black—pounds.....	181,800,000	143,400,000
Fertilizer—tons.....	259,000	310,000
Cyclohexane—gallons.....	54,200,000	43,500,000

*Includes sales, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

United States—An expansion program to increase production of high-density polyethylene plastic resins was started at our Houston plant. Firm prices for these resins

prevailed, and our average realized price was up one-half of a cent a pound. We developed a number of new Marlex resins tailored for specific purposes, including a line of high-density resins whose properties opened new market opportunities.

Our 50% interest in a polypropylene resin plant near Houston, Texas, was sold as a result of the 1966 Consent Order of the Federal Trade Commission. Phillips continues to supply propylene to the plant, operates it on a fee basis, and obtains product from it for synthetic fiber and plastic molding feedstock. Disposal of our interest in this plant and of 50% interest in a low-density polyethylene plant in 1966 resulted in lower plastic resin sales volume in 1967. Except for these factors, sales and internal use of plastic resins increased in 1967.

Ethylene sales rose. Expansion brought our net U. S. ethylene capacity in this high-demand market to more than a billion pounds a year.

Sales of fertilizer decreased slightly because of adverse weather conditions during usual peak application seasons in the Mid-Continent region. Prices for anhydrous ammonia continued to decrease under competitive pressures of increased supplies. There was a marked increase in demand for nitrogen solutions.

Domestic sales of synthetic rubber and carbon black decreased because of lower demand resulting from strikes in the automobile and tire industries. Two new types of oil furnace black and two new Solprene rubbers were added to our product lines. We sold one-half of our 50% interest in the polybutadiene synthetic rubber plant at Borger, Texas, and will continue to operate the plant and supply butadiene feedstock to it from our nearby facility.

Total sales value of special and high-purity chemicals increased. These include hydrocarbon aerosol propellants, of which Phillips is the largest producer, sulfur compounds, and numerous others.

Puerto Rico—Late in the year Phillips Puerto Rico Core Inc., in which our interest is 75%, began testing equipment prior to start up early in 1968 of its core chemical plant near Guayama. The plant produces a number of basic chemicals and by-product motor fuel from naphtha. Contracts were completed covering product sales to customers in Puerto Rico, the U. S. mainland, Europe, and Japan. Major additions to the facilities at Guayama were started.

Outside U. S.—Supplies of chemicals for sale were increased greatly by new and expanded plant capacities, and we extended our network of sales offices. Sales of carbon black, plastics, and cyclohexane rose substantially, and sales of polyvinylchloride began. A 41% owned company, Petrochim, S.A., started up several new units at its large chemical complex near Antwerp, Belgium. Near Brussels, Belgium, Phillips opened a new International Technical Center, which provides

complete sales service laboratories to assist plastics and rubber chemical customers.

Ultrafertil, S.A., a 60% owned Brazilian fertilizer company, began marketing fertilizers in the São Paulo, Brazil, region through eight new mixing and service centers supplied mainly from Phillips U. S. fertilizer operations. Fertilizer will be supplied to these and six more centers to be completed in 1968 from a fertilizer manufacturing complex Ultrafertil is building near Santos, Brazil, upon its completion in mid-1969.

Plant Capacity Increases—Chemical plant capacity added during the year, and new projects authorized or under construction at year end, are shown in the following table:

Product	Location	Phillips Interest	Additional Gross Annual Capacity
ADDED DURING 1967			
Ammonia	Cactus, Texas*	100%	10,300 tons
Ethylene	Sweeny, Texas	65%	500,000,000 pounds
Sulfur	Sweeny, Texas	100%	9,000 long tons
Sulfur	Goldsmith, Texas*	100%	3,700 long tons
Benzene	Guayama, Puerto Rico	75%	111,000,000 gallons
Cyclohexane	Guayama, Puerto Rico	75%	46,000,000 gallons
Mixed xylenes	Guayama, Puerto Rico	75%	100,000,000 gallons
Paraxylene	Guayama, Puerto Rico	75%	74,000,000 pounds
Toluene	Guayama, Puerto Rico	75%	91,000,000 pounds
Ethylene	Antwerp, Belgium	41%	441,000,000 pounds
Propylene	Antwerp, Belgium	41%	243,000,000 pounds
Cyclohexane	Antwerp, Belgium	41%	29,000,000 gallons
Benzene, toluene, and mixed xylenes	Antwerp, Belgium*	41%	45,000,000 gallons
Butadiene	Antwerp, Belgium	41%	25,000 tons
Solprene synthetic rubber	Antwerp, Belgium	41%	54,000 long tons
Solprene synthetic rubber	Salamanca, Mexico	39%	30,000 long tons
Carbon black	Candeias, Brazil	50%	55,000,000 pounds
Carbon black	Cali, Colombia	100%	25,000,000 pounds
Carbon black	Malmo, Sweden	50%	48,500,000 pounds
Carbon black	Hannover, West Germany	50%	55,000,000 pounds
Carbon black	Ravenna, Italy*	50%	16,000,000 pounds
Carbon black	Tokyo, Japan*	50%	27,000,000 pounds
Carbon black	Port Elizabeth, Republic of South Africa*	50%	26,000,000 pounds
High-density polyethylene	Le Havre, France*	20%	4,400,000 pounds
UNDER CONSTRUCTION OR AUTHORIZED AT YEAR END			
High-density polyethylene	Houston, Texas*	100%	39,000,000 pounds
Nitrogen solutions	Kennewick, Washington*	51%	99,000 tons
Sulfur	Borger, Texas	100%	14,600 long tons
Sulfur	Kansas City, Kansas	100%	12,800 long tons
Sulfur	Kuwait-Saudi Arabian Neutral Zone	37%	100,400 long tons
Ortho-xylene	Guayama, Puerto Rico	75%	118,000,000 pounds
High-density polyethylene	Guayama, Puerto Rico	75%	90,000,000 pounds

Polypropylene	Guayama, Puerto Rico	75%	70,000,000 pounds
High-density polyethylene	Puertollano, Spain*	42%	28,000,000 pounds
Ethylene	Antwerp, Belgium*	41%	661,400,000 pounds
Propylene	Antwerp, Belgium*	41%	264,600,000 pounds
High-density polyethylene	Antwerp, Belgium	30%	66,000,000 pounds
Polyvinylchloride	Antwerp, Belgium	50%	110,000,000 pounds
Butadiene	Antwerp, Belgium	41%	44,400 tons
Detergent alkylate	Valencia, Venezuela	15%	30,000,000 pounds
Ammonia	Santos, Brazil	60%	165,000 tons
Nitric acid	Santos, Brazil	60%	206,000 tons
Ammonia nitrate	Santos, Brazil	60%	251,000 tons
Sulfuric acid	Santos, Brazil	60%	234,000 tons
Phosphoric acid	Santos, Brazil	60%	83,000 tons
Di-ammonium phosphate	Santos, Brazil	60%	177,000 tons
Carbon black	Durgapur, India*	30%	10,000,000 pounds
Solprene synthetic rubber	Oita, Japan	50%	20,000 long tons

*Expansion of existing plant; others are new plants.

Chemical Plant Capacity—The following table* shows Phillips annual chemical capacity, both domestic and foreign, when projects that were under construction or authorized at year end are completed:

	Total Ultimate Capacity	Increase Over Present Capacity
	Tons	Tons
Ammonia.....	992,200	165,000
Ammonium sulfate.....	383,300	
Ammonium nitrate.....	435,700	251,000
Nitric acid.....	370,300	206,000
Nitrogen solutions.....	54,800	
Urea-ammonium nitrate solution...	182,900	99,000
Phosphoric acid.....	108,000	83,000
Sulfuric acid.....	444,000	234,000
Di-ammonium phosphate.....	214,500	177,000
Butadiene.....	144,100	18,200
	Long Tons	Long Tons
Synthetic rubber.....	159,700	10,000
Sulfur.....	213,000	64,500
	Pounds	Pounds
Carbon black.....	696,300,000	
Ethylene.....	1,551,900,000	271,200,000
Plastic resins.....	425,000,000	265,900,000
Methylvinylpyridine.....	5,400,000	
Propylene.....	360,900,000	108,500,000
Dodecylbenzene.....	7,200,000	
Ethylene glycol.....	9,000,000	
Cumene.....	22,600,000	
Ethylene oxide.....	17,200,000	
Paraxylene.....	74,000,000	
Ortho-xylene.....	118,000,000	118,000,000
	Gallons	Gallons
Cyclohexane.....	157,900,000	
Benzene.....	143,300,000	
Toluene.....	97,200,000	
Xylenes.....	102,000,000	

Plus more than 250 high-purity special chemicals produced at Philtex Plant and sold mainly in small lots.

*Includes capacities, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

FABRICATED PRODUCTS...

Sales values of fabricated plastic and paper products were higher in 1967. There were sizeable gains in sales of plastic tubular products and vinyl sheet and film materials. Plastic film prices firmed up, but prices for plastic pipe and several dairy packaging items weakened slightly.

A number of new Phillips-developed products and new product uses were commercialized. Among those which promise to result in large markets are a plastic gasoline tank which has a number of advantages over the steel one; corrugated, flexible plastic duct which has economy advantages for many industrial and agricultural uses; large plastic utility cans; a unique polyvinylchloride bottle for packaging; and new vinyl film and laminating materials for the furniture and home construction markets.

Our wholly owned packaging subsidiary, Sealright Co., Inc., introduced a line of blow molded bottles for industrial use as a move to diversify into markets beyond the dairy and food fields.

Plant Expansion—Fabricated product expansion completed during the year included the following:

Plant Location	Phillips Interest	Product	Type of Expansion
Hopkinsville, Ky.	100%	Custom-made plastic parts	New plant
Carolina, Puerto Rico	50%	Plastic bottles	New plant
Mexico City, Mexico	100%	Plastic bottles and beverage cases	New plant
Valencia, Venezuela	50%	Plastic containers	New plant
Mombasa, Kenya	50%	Plastic shoes	New plant
Ballyconnell, Ireland	50%	Plastic containers	New equipment in existing plant
Worms, West Germany	50%	Plastic construction materials	Acquired interest in existing plant

FIBERS...

Substantial progress was made in development and expansion of the Company's synthetic fiber manufacturing and marketing interests during 1967.

Our principal fibers subsidiary, 80% owned Phillips Fibers Corporation, added polyester, under the "Quintess" trademark, to its family of fibers by purchasing a partially completed polyester plant of 20,000,000 pounds annual capacity at Rocky Mount, North Carolina. Because of its qualities in making "wash and wear" and "permanent press" clothes and other kinds of fabric products, polyester is in strong demand.

Near its headquarters at Greenville, South Carolina, Phillips Fibers opened its large, new synthetic fibers technical center which provides facilities for product and process development, and technical and customer services related to the textile industry.

Phillips Fibers also assumed the former olefin fibers marketing functions of Alamo Industries, Inc., which was liquidated.

Synthetic fiber prices declined during the first half of the year, but were firmer during the second half particularly for polyester and nylon fibers.

Plant Expansion—Fiber product plant expansion under way at year end was as follows:

Plant Location	Phillips Interest	Product	Type of Expansion
Rocky Mount, N. C.	80%	Quintess polyester	Capacity enlargement
Spartanburg, S. C.	100%	Marvess olefin fibers	Capacity enlargement
Cartersville, Georgia	100%	Loktuft non-woven carpet backing	Capacity enlargement
Guayama, Puerto Rico	80%	Phillips 66 nylon, 40,000,000 pounds a year	New plant

RESEARCH AND DEVELOPMENT

Achievements—Additional profit sources were created in the many new and improved products, processes, and techniques resulting from efforts of the Company's research and development team during 1967. Some of the more important of these were:

... New line of Marlex high-density ethylene-hexene copolymers; primarily for blow molding but expected uses include pipe, wire and cable coating, sheet extrusion, and monofilament.

... Technique for blow molding of polyolefin to produce bottles with exceptional clarity, appealing shapes, and superior breakage resistance.

... Plastic derived from styrene and butadiene for making tough, transparent packaging.

... Fibers made from polyolefin film with possible uses in indoor-outdoor carpeting, non-woven carpet backing, and blend fabrics.

... A new Philblack which provides processing and cost advantages in blends with tire rubbers.

... Sulfur-based paint for highway markings shown by tests to be more economical than existing paints because of greater durability and quick-drying qualities.

... New processes for the synthesis of olefin chemical intermediates from basic refinery olefins. These are extensions of the Phillips Triolefin process.

... Process for making new family of thermoplastics from polyphenylene sulfide polymers with excellent resistance to heat and chemicals; especially suitable for use in coatings for valve seats, packing, and seals in corrosive-liquid service; as a binder for asbestos papers; and as an additive for greases which must withstand extreme pressures.

... Process for producing cis-polyisoprene, synthetic material having properties of natural rubber, resulting in finished product with great quality uniformity.

... A process called Synat for making synthetic natural gas from liquefied petroleum gas or heavier hydrocarbons to fill need of municipal gas utilities for additional supplies during peak demand periods.

... Digital seismic data processing technique which greatly enhances seismic information from regions offshore, thus improving our ability to find oil and gas in promising continental shelf areas.

Research in Progress—The Company's research and development programs, ranging from the basic sciences of petroleum finding techniques to exploring of all possibilities for end-use products, include a number of developments not yet ready for commercialization but highly promising. Among these are polypropylene carpet fibers superior in dyeability; a new process to make fluorocarbons, pointing to economical manufacture of refrigerants, aerosols, and high-value plastic; a different method of moving chemicals to reservoir rocks to improve recovery of oil; a new and improved process for manufacture of butadiene, used for making synthetic rubber; a process using low-grade forms or by-products of coal, shale, or heavy oil as a starting material for making hydrogen, the cost of which is critical in the production of synthetic fuels; a simplified, lower-cost process for making polyvinylchloride plastic; and a new route to synthesis of protein from hydrocarbons.

Clean Air Research—We continued studies to develop methods to reduce air pollution. A study of the effect of motor oils on positive crankcase ventilation systems demonstrated the outstanding effectiveness of our Trop-Artic oil in minimizing the accumulation of deposits in those systems, thus reducing emissions.

Atomic Energy—At the Atomic Energy Commission's National Reactor Testing Station in Idaho, where the Company conducts major nuclear reactor safety research work, construction continued on two major additions known as the Power Burst Facility and the Loss of Fluid Test facility, with completion scheduled for 1970. Both are based on conceptual designs of the Company's scientists and engineers. Technical programs added to the Company's nuclear safety investigation responsibilities included plant application and engineering tests to evaluate safety systems for large nuclear power plants for metropolitan area locations.

Patents and Licensing—Phillips held its second place ranking in the petroleum industry both in number of patents issued in the United States during the year and

U. S. patents held at year end. The 436 patents issued to Phillips during 1967 brought the Company's total active U. S. patents owned to 5,557. The Company also was issued 467 patents in 39 other countries. Sixty-three new patent licenses were granted by Phillips to 62 companies in eight countries.

Licensing of patents and contracts for technical services were sources of substantial earnings. Patent-licensing revenue almost equalled the Company's total research and development expenditures in 1967, and exceeded by many times our own payment of patent royalties to others.

PEOPLE

EMPLOYEES . . . The total number of employees at year end was 35,724, a net increase of 1,057. This increase resulted largely from new projects.

On January 1, 1967, Phillips put into effect general wage and salary increases for most employees not exempt from the overtime payment laws. Similar increases were granted throughout the oil industry. There were no serious work stoppages during the year.

A "1967 Gold Rush" suggestion award campaign commemorating the Company's 50th anniversary resulted in submission of an unusually large number of worthwhile ideas under the Suggestion Award Plan. These have meant substantial reductions in cost and improvements in operation.

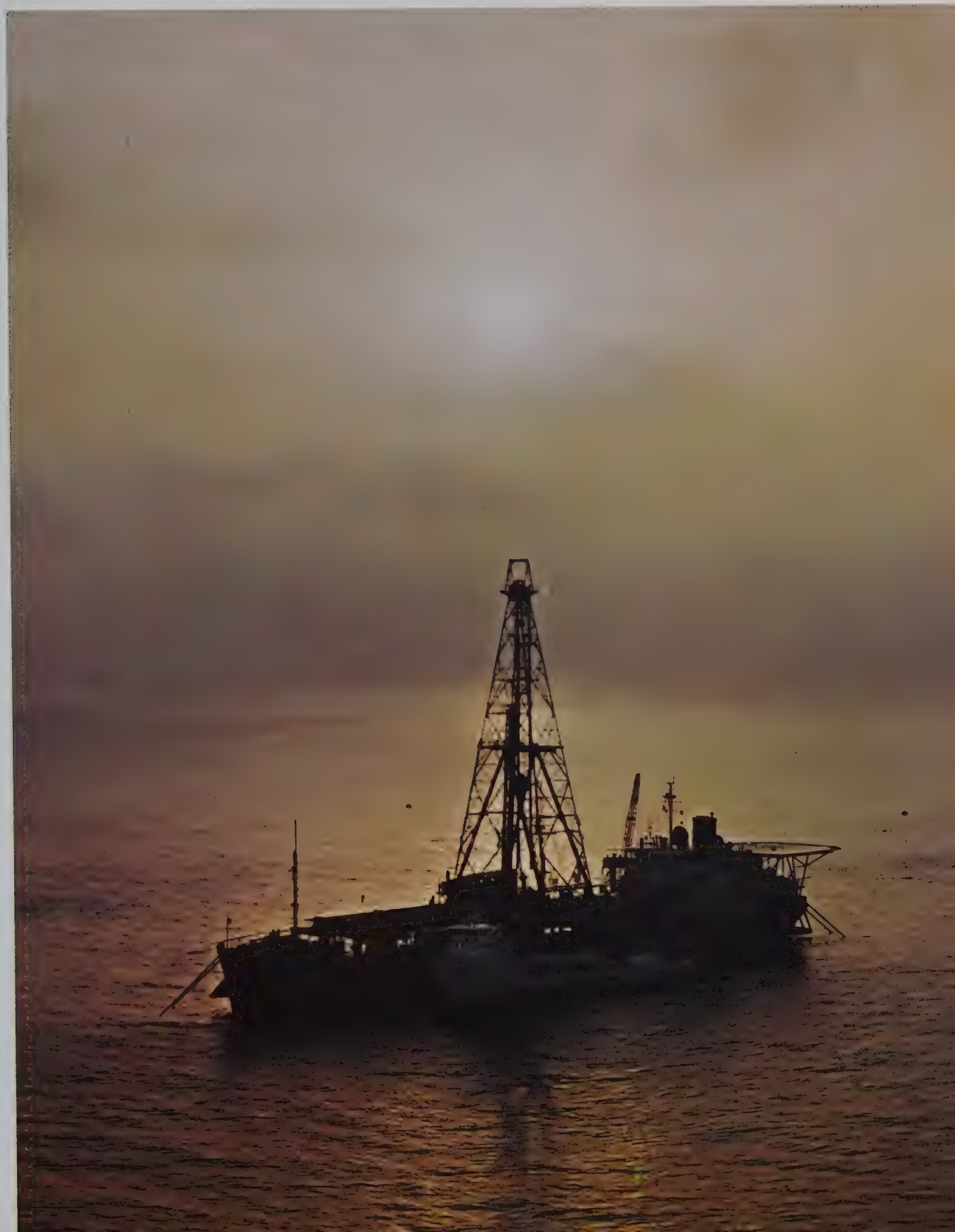
The maximum annual amount for the Company's matching of an employee's gifts to colleges and universities under the Matching Gift Plan was increased from \$1,000 to \$2,000.

The Educational Assistance Plan was improved to offer additional financial assistance to employees doing undergraduate and graduate study for job improvement. More than 300 employees received aid under the Plan.

The safety record of employees continued to be outstanding. Many groups completed periods of 1,000,000 man hours worked without an injury resulting in lost time. An intensive "defensive" driving program was conducted, resulting in a 25% reduction in Company vehicle accidents.

STOCKHOLDERS . . . There were 139,670 shareowners at year end. They resided in every state and possession of the United States and in 56 other countries. The largest ownership block consisted of the interest of 16,609 employees in the Employee Thrift Plan. This Plan at year end held more than 6% of total shares outstanding.

Large productive formations were found by this well in offshore Iranian waters, and development to produce oil discovered here has been started.



Several oil discoveries were made in 1967 on Nigerian acreage.

Rapid development of Cook Inlet fields resulted in significant gain in Alaskan oil production.



Growth in petroleum product sales caused greater credit card use and increased activity in the Kansas City central credit card office.

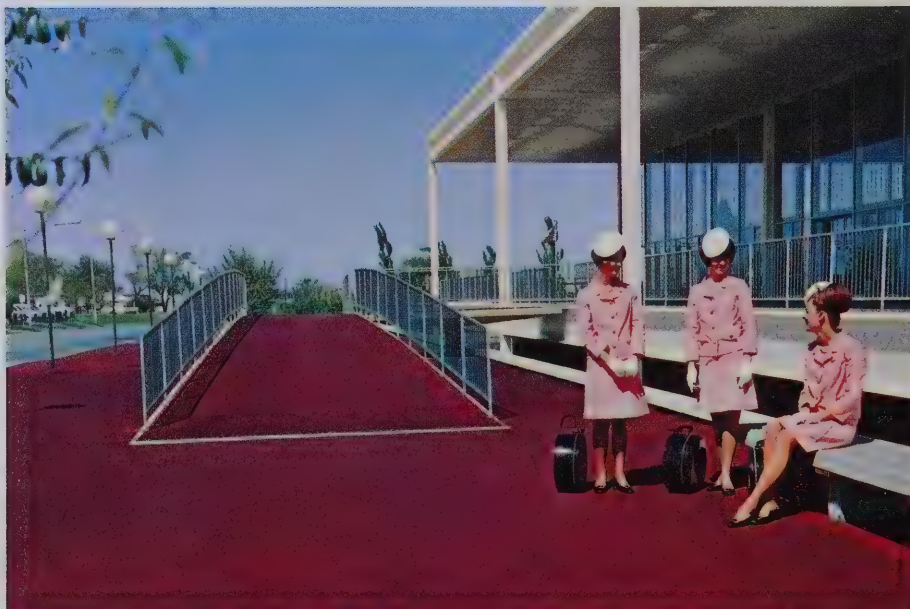


Alvin Plant, left, near the Texas Gulf Coast, extracts huge volumes of natural gas liquids, part of which are used as raw material by an ethylene plant, below, added at our Sweeny Refinery. Both are new plants 65% owned by Phillips.



Phillips became a service station marketer in 50 states with opening of this service station in Anchorage, Alaska, identified both by a native totem pole and the Phillips 66 shield.

Phillips Fibers Corporation opened a new technical center at Greenville, South Carolina, where products and processes are developed and technical services for customers are provided.



Because of its attractiveness and resistance to weather, wear, and stains, the market is expanding for indoor-outdoor carpeting made of our Marvess olefin fibers, shown here at entrance of a major airport terminal.



Near Guayama, Puerto Rico, a major-interest chemical complex began operations. It manufactures basic chemicals for use in Puerto Rican industry and for world markets.

At Antwerp, Belgium, expansion of a huge, part-interest petrochemical complex is adding greatly to capacity for ethylene and other chemicals.





At Malmo, Sweden, top, and Candeias, Brazil, below, are two of the four overseas Phillips-process carbon black plants that began operating in 1967 and raised our net world-wide capacity to approximately 700,000,000 pounds.



Corrugated, flexible plastic duct, with many potential uses, is one of numerous new products manufactured and introduced by Phillips plastics subsidiaries in 1967.

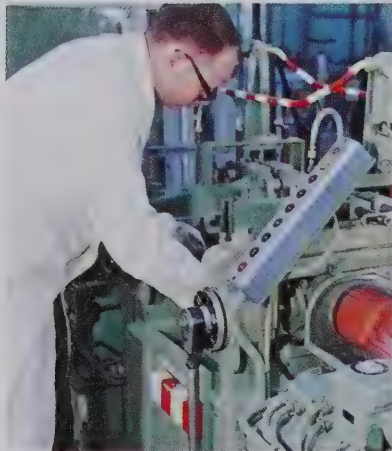
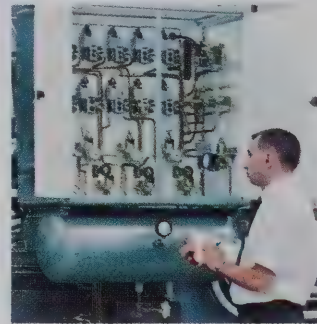


Potentially one of the biggest volume uses for our high-density polyethylene is represented by these plastic automotive gasoline tanks, developed by Phillips and proved safer than and superior to other tanks after extensive testing by automobile and truck manufacturers.

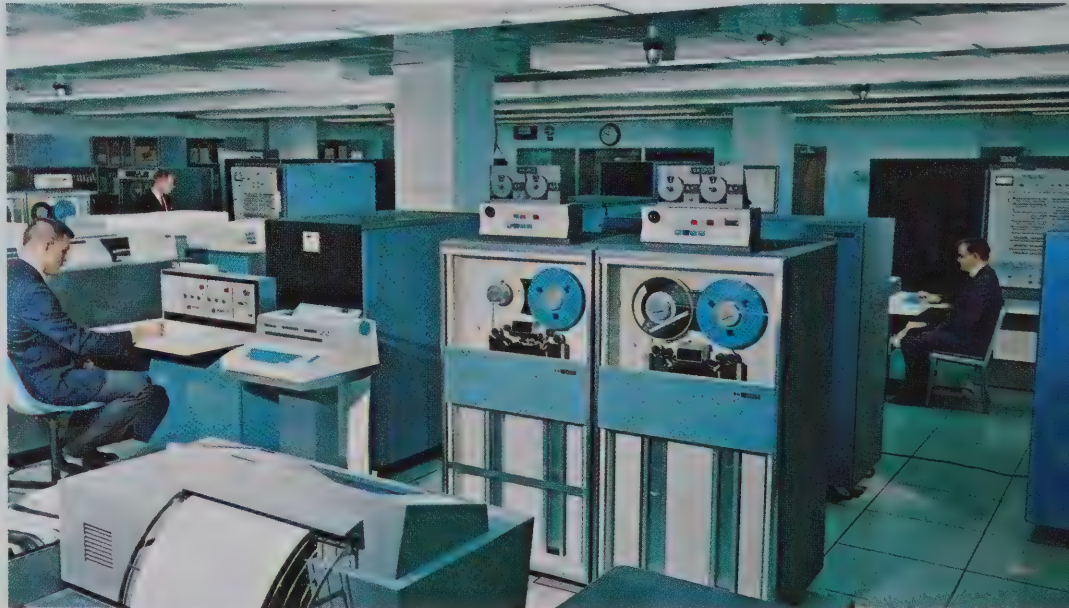
Oil displacement experiments performed in this specially built, 100-foot folded tube are a part of research which has led to new methods for recovering a higher percentage of oil from underground rock formations.



This machine, developed at our Research Center, utilizes a new and superior technique to blow mold polyolefin plastic into bottles with exceptional clarity, strength, and other desirable packaging characteristics.



The Company's large International Technical Center at Brussels, Belgium, was opened in 1967, to provide technical and other service assistance to plastics and rubber chemical customers. Work on plastics is under way in this scene.



Computers are used extensively in nearly every aspect of Phillips world-wide operations. Shown here in our Bartlesville computing center is a portion of one of the largest computer systems available for business and scientific uses—two data processors interconnected to operate as one system. This system in 1967 replaced equipment that had been outgrown.

Pilot operations were used to test newly developed processes, which are extensions of the Phillips Triolefin process, for making chemical plant feedstocks.

FINANCIAL REVIEW

Earnings in 1967 were a record \$164,000,000, an increase of 13½% from previously reported 1966 earnings of \$144,500,000 excluding an extraordinary gain of \$7,100,000.

Effective January 1, 1967, Phillips adopted the accounting practices of including in its consolidated financial statements the accounts of all partly owned companies in which more than 50% interest is held and amortizing the cost of undeveloped oil and gas leases. Financial statements, including earnings, in all previous annual reports reflected consolidation of only wholly owned subsidiaries, and the charge-off of individual lease costs in the year of release. For comparative purposes, figures for 1966 have been adjusted in this report to reflect the new accounting practices.

The 1967 earnings of \$164,000,000 were 18½% higher than adjusted 1966 earnings of \$138,400,000 excluding the \$7,100,000 extraordinary gain. Earnings per share, based on average shares outstanding, were \$4.74 in 1967 compared with 1966 earnings of \$4.33 before adjustment and \$4.14 after adjustment. Shares outstanding averaged 34,625,553 in 1967 and 33,423,515 in 1966.

The Company's equity in 1967 net earnings of unconsolidated companies in which stock interests are held is estimated at \$16,800,000. Dividends totaling \$11,100,000 were received from these companies.

Gross income in 1967 totaled \$2,012,200,000 compared with \$1,784,400,000 in 1966. Of these totals, income from chemicals and related products was \$372,000,000 in 1967 compared with \$341,100,000 in 1966. Revenue from operations outside the United States was 9% of the gross income in 1967, the same as in 1966.

Effective with the dividend paid June 1, 1967, the annual rate was increased 20 cents to \$2.40 a share. Dividends paid in 1967 were \$2.35 a share, compared with \$2.20 a share in 1966. A regular quarterly dividend of 60 cents a share was paid March 1, 1968.

Cash generated, consisting of net income plus charges for depreciation, depletion, retirements, and deferred income taxes, was \$338,700,000 or \$9.78 a share.

Capital expenditures were \$279,800,000 distributed as follows: production, 42%; manufacturing, 49%; marketing, 7%; and transportation and other assets, 2%. Other investments, for purchase of securities of other companies, totaled \$13,100,000. In 1966, capital expenditures were \$271,100,000, excluding \$308,600,000 for properties acquired from Tidewater Oil Company. Other investments totaled \$23,800,000.

Assets increased \$56,100,000 during the year to a year-end total of \$2,787,200,000. Provisions for depreciation, depletion, and retirements in 1967 amounted to \$170,100,000 compared with \$158,100,000 in 1966.

At December 31, 1967, the Company's long-term debt was \$690,000,000, an increase of \$29,700,000 during

the year. A total of \$35,000,000 had been borrowed under a revolving \$175,000,000 credit with a group of banks. This credit extends to September 30, 1968, at which time the amount outstanding may be converted to a term loan. A total of \$145,000,000 had been borrowed under a \$200,000,000 issue of 5¾% notes due July 1, 1991. Phillips Puerto Rico Core Inc., 75% owned, and Fibers International Corporation, 80% owned, had borrowed \$73,000,000 under their \$95,000,000 issue of 6¼% Sinking Fund Notes due 1986. Ultrafertil, S.A. Industria e Comercio de Fertilizantes, a 60% owned Brazilian corporation which is constructing facilities to manufacture and market fertilizers, had borrowed \$4,500,000 under a \$44,000,000 credit.

At December 31, 1967, \$105,200,000 principal amount of 4¼% Convertible Subordinated Debentures due 1987 was outstanding under the Company's original \$171,720,000 issue in 1957. In January 1968, the Company called for redemption on February 23, 1968, all of these debentures not previously converted or previously called for redemption to meet sinking fund requirements.

Direct Federal, state, and other taxes for 1967 were \$113,100,000, equivalent to \$3.27 a share and 39% more than dividend payments to stockholders. The Company's income tax provision for 1967 is equivalent to \$1.84 a share. An additional \$211,000,000 in taxes was collected and paid on the sale of products, primarily gasoline.

SOURCE AND DISPOSITION OF FUNDS

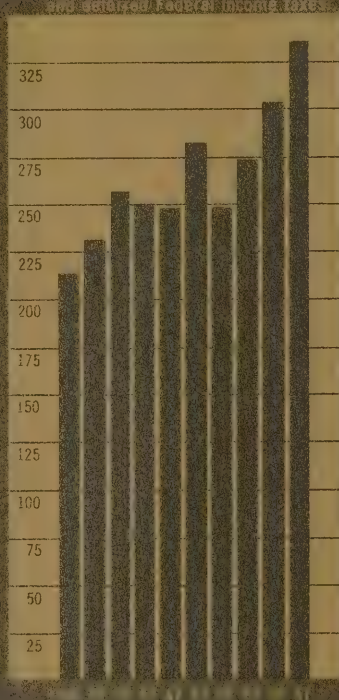
	(in millions of dollars)	
	1967	1966
SOURCE OF FUNDS		
Net income.....	\$164.0	\$145.5
Depreciation, depletion, and retirements.....	170.1	158.1
Other non-cash items.....	4.6	.9
	<u>338.7</u>	<u>304.5</u>
Increase in long-term debt.....	29.7	246.2
Sale of properties and investments.....	75.0	27.3
Capital stock issued.....	63.8	8.5
Decrease in working capital.....	—	122.3
Other.....	22.3	5.3
	<u>\$529.5</u>	<u>\$714.1</u>
DISPOSITION OF FUNDS		
Capital expenditures.....	\$279.8	\$579.7
Cash dividends.....	81.1	73.5
Investments and long-term receivables.....	(4.6)	47.6
Increase in working capital.....	170.6	—
Other.....	2.6	13.3
	<u>\$529.5</u>	<u>\$714.1</u>

FINANCIAL

CASH GENERATED

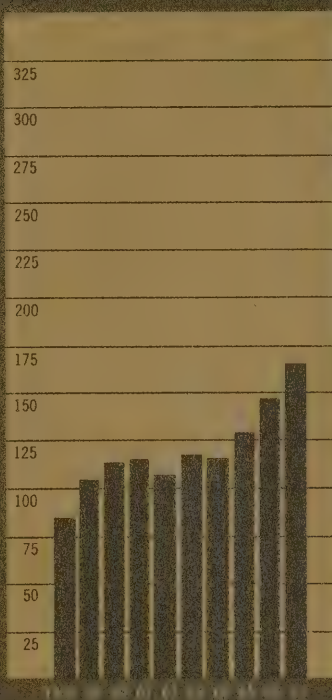
Millions of dollars

Operating income, depreciation, depletion, amortization, and deferred Federal income taxes



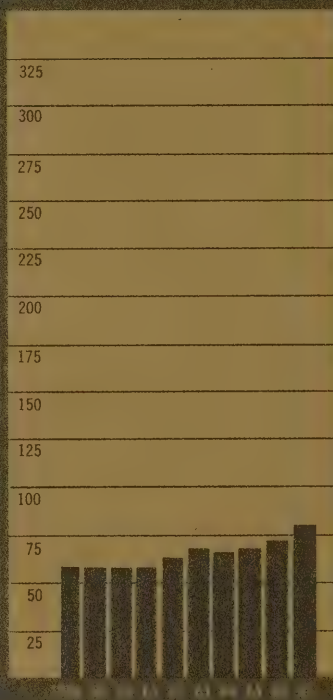
NET INCOME

Millions of dollars



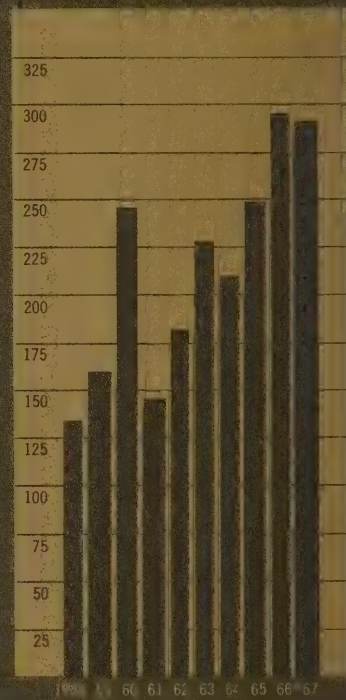
FINANCING AND INVESTING

Millions of dollars



CAPITAL EXPENDITURES AND INVESTMENTS

Millions of dollars

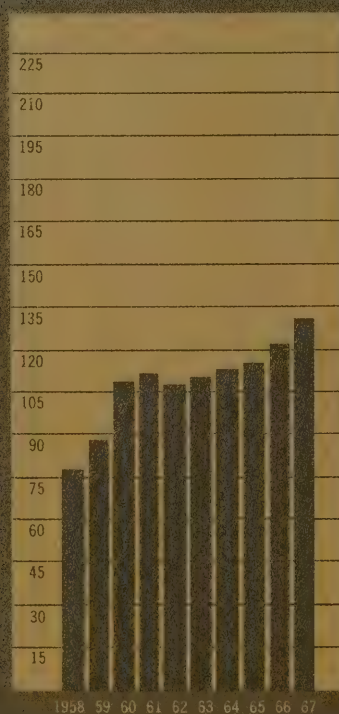


*Excludes \$1,016,000 for Western U.S. manufacturing and marketing properties.

OPERATING*

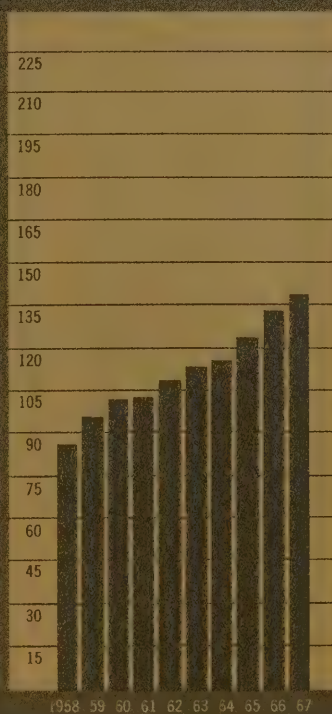
NATURAL GAS SERVICE

Millions of cubic feet



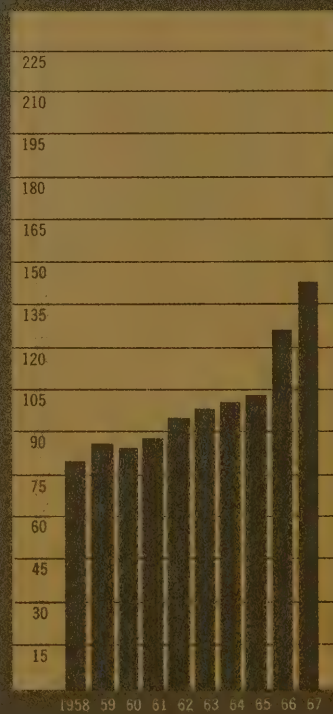
CRUDE OIL AND NATURAL GAS LIQUIDS

Millions of barrels of oil and oil products



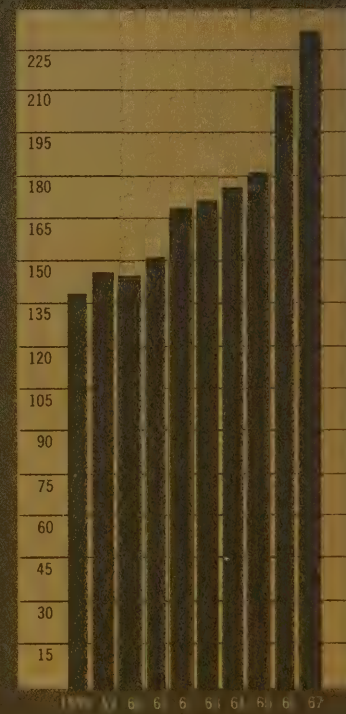
CRUDE OIL REFINED

Millions of barrels



PETROLEUM PRODUCTS SOLD

Millions of barrels



*Includes operating results of non-consolidated companies owned one-third or more in proportion to the Company's stock interest

PHILLIPS PETROLEUM COMPANY
CONSOLIDATED BALANCE SHEET AT DECEMBER 31

ASSETS	1967	1966*
CURRENT ASSETS:		
Cash.....	\$141,466,000	\$ 161,207,000
Short-term investments, at cost.....	5,606,000	15,000,000
Notes and accounts receivable— (less reserves: 1967—\$3,976,000; 1966—\$3,995,000).....	351,530,000	303,243,000
Inventories:		
Crude oil, petroleum products, and merchandise—Note 2.....	228,199,000	218,203,000
Materials and supplies, at average cost or condition value.....	30,781,000	31,492,000
Total Current Assets.....	757,582,000	729,145,000
INVESTMENTS AND LONG-TERM RECEIVABLES, at cost— (less reserves: 1967—\$3,333,000; 1966—\$2,841,000)—Note 3.....	290,313,000	311,676,000
PROPERTIES, PLANTS, AND EQUIPMENT, at cost, less reserves—Note 4.....	1,709,674,000	1,657,890,000
PREPAID AND DEFERRED CHARGES.....	29,664,000	32,345,000
	<u>\$2,787,233,000</u>	<u>\$2,731,056,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable.....	\$ 45,589,000	\$ 56,497,000
Accounts payable.....	220,229,000	197,336,000
Long-term debt—due within one year.....	49,890,000	180,948,000
Accrued taxes.....	86,336,000	102,450,000
Other accruals.....	27,657,000	34,615,000
Total Current Liabilities.....	429,701,000	571,846,000
LONG-TERM DEBT—Note 5.....	690,034,000	660,321,000
DEFERRED CREDITS:		
Federal income taxes.....	67,317,000	62,815,000
Other.....	61,188,000	46,635,000
Total Deferred Credits.....	128,505,000	109,450,000
RESERVE FOR CONTINGENCIES.....	27,568,000	29,881,000
MINORITY INTEREST IN SUBSIDIARIES CONSOLIDATED.....	15,859,000	11,821,000
STOCKHOLDERS' EQUITY:		
Common stock, \$5 par value—Note 6:		
Shares authorized—50,000,000		
Shares issued—(1967—35,914,051; 1966—34,635,280).....	179,570,000	173,176,000
Capital in excess of par value of common stock—Note 6.....	329,247,000	271,865,000
Earnings employed in the business.....	1,044,095,000	961,161,000
	1,552,912,000	1,406,202,000
Less treasury stock, at cost— (1967—1,055,465 shares; 1966—1,076,071 shares).....	57,346,000	58,465,000
Total Stockholders' Equity.....	1,495,566,000	1,347,737,000
	<u>\$2,787,233,000</u>	<u>\$2,731,056,000</u>

*Restated. See Note 1.

**PHILLIPS PETROLEUM COMPANY
CONSOLIDATED STATEMENT OF INCOME AND
EARNINGS EMPLOYED IN THE BUSINESS**

	1967	1966**
INCOME:		
Gross operating income.....	\$1,981,572,000	\$1,760,337,000
Other income.....	30,655,000	24,111,000
	<u>2,012,227,000</u>	<u>1,784,448,000</u>
COSTS AND EXPENSES:		
Cost of sales and services.....	1,276,145,000	1,124,585,000
Selling, general, and administrative expense.....	245,896,000	223,867,000
Depreciation, depletion, and retirements.....	170,136,000	158,093,000
Interest and expense on indebtedness.....	42,954,000	32,002,000
Taxes other than income taxes*.....	49,330,000	42,302,000
Provision for income taxes.....	63,751,000	65,201,000
	<u>1,848,212,000</u>	<u>1,646,050,000</u>
INCOME BEFORE EXTRAORDINARY ITEM	164,015,000	138,398,000
PROFIT (after income taxes) ON LIQUIDATION OF GREAT LAKES PIPE LINE COMPANY	—	7,079,000
NET INCOME	164,015,000	145,477,000
EARNINGS EMPLOYED IN THE BUSINESS AT BEGINNING OF YEAR	961,161,000	889,211,000
	<u>1,125,176,000</u>	<u>1,034,688,000</u>
DIVIDENDS PAID (1967—\$2.35 a share; 1966—\$2.20 a share).....	81,081,000	73,527,000
	<u>1,044,095,000</u>	<u>\$ 961,161,000</u>
EARNINGS EMPLOYED IN THE BUSINESS AT END OF YEAR		
PER SHARE OF COMMON STOCK—Note 6:		
Income before extraordinary item.....	\$ 4.74	\$ 4.14
Profit (after income taxes) on liquidation of Great Lakes Pipe Line Company....	—	.21
Net income.....	<u>\$ 4.74</u>	<u>\$ 4.35</u>

*In addition, taxes of \$211,000,000 in 1967 and \$184,000,000 in 1966 were collected on the sale of petroleum products and paid to taxing agencies.

**Restated. See Note 1.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders,
Phillips Petroleum Company:

We have examined the accompanying consolidated balance sheet of Phillips Petroleum Company and subsidiaries at December 31, 1967 and the related consolidated statement of income and earnings employed in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company and subsidiaries at December 31, 1967 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after restatement of that year as explained in Note 1.

Tulsa, Oklahoma
February 15, 1968

ARTHUR YOUNG & COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 1—CHANGES IN ACCOUNTING POLICIES

Effective January 1, 1967, the Company adopted the policy of consolidating all companies owned more than 50% and the policy of amortizing, retroactively, the cost of undeveloped oil and gas leases over their estimated holding periods based on past experience. Prior to 1967, only wholly-owned companies were consolidated and undeveloped leases were charged against income, when released. These changes in accounting policies had no material effect on 1967 net income. The 1966 financial statements have been restated to reflect these new policies and, accordingly, net income for that year has been reduced \$6,147,000 (19¢ a share) and earnings employed in the business at January 1, 1966, have been decreased \$28,954,000 of which \$26,379,000 (after applicable income taxes of \$24,350,000) is due to the change in accounting for undeveloped leases.

NOTE 2—INVENTORIES

Inventories are priced substantially at cost, which is lower than market in the aggregate, calculated mainly by use of the last-in, first-out method with crude oil on an annual basis and refined products, chemicals, and natural gasoline products on a monthly basis.

NOTE 3—INVESTMENTS

Investments at December 31, 1967, include 9,337,855 shares of common stock of Pacific Petroleum Ltd. at a cost of \$89,275,000. At the same date, these securities had a quoted market value of \$159,911,000 which does not purport to be realizable value.

NOTE 4—PROPERTIES, PLANTS, AND EQUIPMENT

The Company's investment in properties, plants, and equipment is summarized as follows:

	December 31,	
	1967	1966
Production.....	\$1,495,917,000	\$1,460,653,000
Manufacturing.....	1,065,142,000	967,561,000
Transportation.....	271,605,000	272,248,000
Marketing.....	346,882,000	347,664,000
Other.....	88,433,000	97,202,000
	<u>3,267,979,000</u>	<u>3,145,328,000</u>
Less depreciation, depletion, and amortization.....	<u>1,558,305,000</u>	<u>1,487,438,000</u>
	<u>\$1,709,674,000</u>	<u>\$1,657,890,000</u>

NOTE 5—LONG-TERM DEBT

Long-term debt due after one year at December 31, 1967, consists of the following:

4¼% Convertible Subordinated Debentures due 1987 (convertible into common stock of the Company at \$55 a share through February 15, 1972).....	\$102,300,000
6% Guaranteed Sinking Fund Debentures Due 1981.....	25,000,000
First Mortgage and Leasehold 3% Sinking Fund Bonds due 1969 - 1975.....	3,360,000
Notes payable to banks, insurance companies, and others:	
At 2½-5%, due 1969 - 1987.....	252,700,000
At 5½%-6¼%, due 1969 - 1991.....	291,919,000
At 7¼%-8%, due 1969 - 1976.....	5,228,000
Purchase obligations.....	9,527,000
Total.....	<u>\$690,034,000</u>

In January, 1968, the 4¼% Convertible Subordinated Debentures were called for redemption on February 15, 1968, with respect to \$2,897,000 principal amount (under sinking fund provisions) and on February 23, 1968, with respect to the remainder.

NOTE 6—COMMON STOCK

Under the Company's 1959 restricted stock option plan, options to purchase 578,453 shares were outstanding to 1,882 key employees at January 1, 1967. During the year, options for 140,755 shares were exercised for an aggregate of \$7,233,090 and options for 8,990 shares were cancelled. At December 31, 1967, options expiring at various dates from 1969 to 1973 were outstanding under the 1959 plan to 1,583 key employees to purchase 428,708 shares at an average price of \$52.21 of which options for 413,258 shares were exercisable. At January 1, 1967, options for 34,780 shares of treasury stock were also outstanding to 17 individuals at an average price of \$53.20 a share. These options, granted in connection with the acquisition of various corporations, became exercisable in cumulative installments beginning in 1964 and expire in years 1969 to 1973 inclusive. During 1967, options for 5,120 shares were exercised.

Capital in excess of par value of common stock was increased during the year by \$57,382,000 resulting from the exercise of stock options, the issuance of 1,138,016 shares in conversion of the Company's 4¼% Convertible Subordinated Debentures due 1987, and the exchange of 11,417 shares of treasury stock for certain assets. At December 31, 1967, 1,912,381 shares were reserved for conversion of the remaining debentures.

Net income per share of common stock, on a pro forma basis reflecting conversion of debentures outstanding at the beginning of each year, was \$4.54 in 1967 and \$3.88 in 1966 excluding an extraordinary item of 19¢ a share on the same basis.

NOTE 7—COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1967, the Company had leases expiring more than three years from that date covering bulk and service stations, tank cars, office space, and other facilities. The minimum rentals payable under these leases are estimated at \$38,700,000 for 1968. Rentals from stations subleased and mileage income on leased tank cars are estimated at \$23,700,000.

The Company has contingent liabilities with respect to commitments, litigation, claims and, in connection with obligations of affiliated companies and others, direct guarantees and conditional commitments to acquire their notes or similar indebtedness to others. These contingent liabilities are incurred in the ordinary course of business and no significant loss, in relation to the net assets of the Company, is anticipated.

NOTE 8—RETIREMENT INCOME PLAN

The Company has a voluntary contributory retirement income plan in which all full-time employees on United States dollar payrolls of the Company and certain subsidiaries are eligible to participate after one year of service. The Company's policy is to accrue and fund pension costs based on actuarial studies. Total Company contributions to the plan for 1967 were \$11,736,000 which includes amortization of unfunded past service liabilities over a period of 25 years.

TEN-YEAR STATISTICS

FINANCIAL—Dollars in millions, except per share amounts

	1967	1966**	1965
Gross income.....	\$ 2,012.2	1,784.4	1,464.7
Net income.....	\$ 164.0	145.5	127.7
Net income per average share outstanding.....	\$ 4.74	4.35	3.82
Dividends paid.....	\$ 81.1	73.5	68.6
Dividends per share.....	\$ 2.35	2.20	2.05
Net working capital*.....	\$ 327.9	157.3	247.2
Current ratio*.....	1.76	1.28	2.02
Capital expenditures—total.....	\$ 279.8	579.7	232.4
Production.....	\$ 117.5	136.0	144.8
Manufacturing.....	\$ 136.3	230.9	50.5
Transportation.....	\$ 1.3	68.6	5.3
Marketing.....	\$ 19.1	125.6	26.3
Other assets.....	\$ 5.6	18.6	5.5
Long-term debt*.....	\$ 690.0	660.3	333.7
Total assets*.....	\$ 2,787.2	2,731.1	2,029.1
Stockholders' equity per share*.....	\$ 42.90	40.16	38.81
Direct tax expense.....	\$ 113.1	107.5	71.9
Total payroll (including employee benefits).....	\$ 324.4	291.6	255.4
Common stock outstanding—shares*.....	34,858,586	33,559,209	33,369,329
Number of employees*.....	35,724	34,667	29,873
Number of stockholders*.....	139,670	139,224	137,739

OPERATING—See note below

Production

Crude oil produced—total net barrels daily.....	236,000	232,000	208,000
United States.....	135,000	128,000	120,000
Other countries.....	101,000	104,000	88,000
Natural gas liquids produced—net barrels daily.....	142,000	135,000	131,000
Natural gas produced—thousands of net cubic feet daily.....	1,580,000	1,498,000	1,417,000
Wells drilled—net.....	145	223	315
Producing oil and gas wells—net*.....	9,604	9,787	9,631
Total oil and gas acreage—net*.....	48,522,000	59,702,000	54,786,000
Developed oil and gas acreage—net*.....	1,292,000	1,283,000	1,229,000

Transportation

Barrels handled daily—common carrier pipelines.....	690,000	672,000	637,000
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Refining

Crude runs to stills—barrels daily.....	389,000	348,000	286,000
Natural gas liquids runs to stills—barrels daily.....	164,000	161,000	157,000
Refinery crude capacity—barrels daily*.....	490,000	527,000	343,000
Natural gas liquids capacity—barrels daily*.....	167,000	167,000	162,000

Sales

Petroleum products—barrels daily.....	637,000	582,000	498,000
Natural gas sold or consumed—thousands of cubic feet daily.....	3,171,000	3,051,000	2,853,000
Natural gas sold—average price per thousand cubic feet.....	\$.1521	.1505	.1504
Fertilizer—tons.....	1,365,000	1,435,000	1,118,000
Plastic resins—pounds.....	197,400,000	208,800,000	180,061,000
Carbon black—pounds.....	371,659,000	343,700,000	317,346,000
Synthetic rubber—long tons.....	88,000	90,000	77,000
Marketing outlets*.....	26,513	27,240	23,677

*At year end. **Restated. See Note 1 to financial statements.

Note—Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned one-third or more.

See page 1 regarding Statistical Supplement.

1964	1963	1962	1961	1960	1959	1958
1,352.8	1,356.6	1,261.0	1,231.6	1,228.6	1,179.2	1,072.9
115.0	116.5	107.0	113.8	112.9	104.6	84.2
3.45	3.41	3.11	3.31	3.29	3.05	2.45
67.8	68.9	63.6	58.4	58.4	58.4	58.4
2.00	1.97½	1.85	1.70	1.70	1.70	1.70
224.4	218.9	204.6	219.8	195.7	219.9	217.1
2.00	1.91	2.02	2.10	2.00	2.19	2.44
195.0	156.5	156.3	131.9	180.7	120.8	132.8
109.4	80.7	100.3	74.1	110.3	81.9	91.3
44.8	25.5	17.5	26.6	43.4	17.4	17.5
14.4	13.8	7.7	6.0	4.3	2.3	2.4
20.9	27.6	26.5	19.1	16.1	10.8	6.4
5.5	8.9	4.3	6.1	6.6	8.4	15.2
260.6	201.5	223.0	242.9	261.8	280.2	302.3
1,875.2	1,806.3	1,735.3	1,686.8	1,646.8	1,579.9	1,515.5
37.12	36.13	35.09	33.85	32.22	30.64	29.29
68.9	102.7	80.4	80.1	84.3	83.5	45.5
242.4	236.6	202.6	198.6	199.7	190.6	182.8
33,464,351	34,275,666	34,347,499	34,384,642	34,358,474	34,357,694	34,353,174
28,298	27,816	25,648	24,711	25,209	24,575	24,459
137,589	130,324	128,882	130,957	133,373	135,523	127,749
198,000	198,000	191,000	179,000	178,000	165,000	145,000
118,000	118,000	115,000	117,000	120,000	124,000	119,000
80,000	80,000	76,000	62,000	58,000	41,000	26,000
120,000	114,000	108,000	106,000	104,000	98,000	92,000
1,415,000	1,398,000	1,389,000	1,412,000	1,402,000	1,335,000	1,237,000
352	349	331	328	311	334	309
9,599	9,434	9,124	9,035	8,944	8,867	8,803
46,820,000	52,843,000	49,293,000	46,610,000	41,556,000	36,784,000	21,588,000
1,197,000	1,164,000	1,124,000	1,114,000	1,062,000	1,044,000	1,014,000
610,000	562,000	546,000	536,000	506,000	516,000	472,000
279,000	270,000	263,000	238,000	230,000	237,000	222,000
157,000	149,000	143,000	141,000	139,000	132,000	121,000
333,000	331,000	331,000	311,000	298,000	287,000	282,000
162,000	162,000	162,000	152,000	152,000	150,000	150,000
484,000	471,000	464,000	417,000	400,000	403,000	381,000
2,851,000	2,836,000	2,809,000	2,843,000	2,886,000	2,799,000	2,612,000
.1463	.1425	.1395	.1399	.1343	.1143	.1065
966,000	748,000	808,000	683,000	674,000	878,000	773,000
140,637,000	153,332,000	100,259,000	67,215,000	50,256,000	30,711,000	16,378,000
297,964,000	266,644,000	255,734,000	237,226,000	253,194,000	247,223,000	200,244,000
81,000	81,500	106,100	99,500	97,500	91,600	77,100
23,520	23,662	23,569	22,105	21,440	21,182	20,902

DIRECTORS

K. S. Adams, Bartlesville, Oklahoma
F. W. Begrisch, New York, New York
Samuel B. Fortenbaugh, Jr., Philadelphia, Pennsylvania
John Getgood, Bartlesville, Oklahoma
W. C. Hewitt,* Bartlesville, Oklahoma
John M. Houchin,* Bartlesville, Oklahoma
W. W. Keeler,* Bartlesville, Oklahoma
Stanley Learned, Bartlesville, Oklahoma
W. F. Martin,* Bartlesville, Oklahoma
Philip R. Phillips, Bartlesville, Oklahoma
William Piel, Jr., New York, New York
C. C. Tate, Bartlesville, Oklahoma
W. Clarke Wescoe, Lawrence, Kansas
Wm. J. Zeman,* Bartlesville, Oklahoma

*Member Executive Committee

OFFICERS

K. S. Adams, Chairman of the Board of Directors and Finance Committee
Stanley Learned, Vice Chairman of the Board of Directors
W. W. Keeler, President and Chief Executive Officer
John M. Houchin, Chairman of the Executive Committee
W. C. Hewitt, Executive Vice President
W. F. Martin, Senior Vice President
Wm. J. Zeman, Vice President and General Counsel
John Getgood, Vice President Sales
C. C. Tate, Vice President Manufacturing
P. M. Arnold, Vice President Research and Development
H. D. Brookby, Vice President Exploration and Production
T. L. Cabbage, Vice President Chemical
LeRoy Culbertson, Vice President Natural Gas and Gasoline
C. M. Kittrell, Vice President Supply and Transportation
G. W. McCullough, Vice President Engineering
K. W. Rugh, Vice President Advertising and Public Relations
Robert N. Sears, Vice President and Assistant Secretary
Carstens Slack, Vice President Washington Office
Edwin Van den Bark, Vice President International

O. W. Armstrong, Secretary and Treasurer
W. A. Roberts, Chairman Operating Committee
H. B. Stead, Comptroller
Lloyd G. Minter, General Attorney
J. A. Thompson, Secretary Executive Committee and Finance Committee
W. H. Swatzel, Assistant Treasurer and Manager of Treasury Department
J. L. Adams, Assistant Treasurer
Glenn A. Cox, Assistant Treasurer
M. E. Kissell, Assistant Treasurer
J. J. Hutchinson, Assistant Secretary
Lee W. Stone, Assistant Secretary
Harvey W. Thompson, Assistant Secretary
Joe W. Zeman, Assistant Secretary
H. W. Bettis, Deputy Comptroller
T. C. Heritage, Assistant Comptroller
S. L. Lugar, Assistant Comptroller
T. E. Smiley, Assistant Comptroller

OTHER EXECUTIVES

M. L. Collins, Manager Tax, Insurance, and Claims
Kieffer Davis, M. D., Manager Medical
W. C. Douce, Manager Chemical
T. E. Gilmore, Manager Advertising and Public Relations
John E. Harris, Jr., Manager Supply and Transportation
M. R. Hayes, Manager General Services
C. W. Hubbell, Manager Engineering
Myron O. Johnson, Manager Computing
L. H. Johnstone, Vice Chairman Operating Committee
G. L. Lory, Manager Sales
W. R. Lusbey, Manager Aviation
Dan L. Mayer, Manager Natural Gas and Gasoline
L. D. Phillips, Manager Employee Relations
W. L. Phillips, Manager International
Jack Turner, Manager Exploration and Production
H. D. Trotter, Manager Purchasing



NEW MANAGEMENT

These men comprise the Company's top management team as a result of changes in 1967. They are, from the right, W. W. Keeler, President and Chief Executive Officer, 59 years of age; John M. Houchin, Chairman of the Executive Committee, 59; W. C. Hewitt, Executive Vice President, 55; and W. F. Martin, Senior Vice President, 50. Together they represent 137 years of experience in major segments of Phillips operations.

MANAGEMENT CHANGES . . . In July, Mr. W. W. Keeler was elected President and Chief Executive Officer of the Company. Mr. John M. Houchin was elected Chairman of the Executive Committee, replacing Mr. Keeler, and Mr. W. C. Hewitt, formerly Senior Vice President, was elected Executive Vice President, Mr. Houchin's previous post.

Mr. Keeler succeeded Mr. Stanley Learned, who was elected Vice Chairman of the Board of Directors, replacing Mr. Paul Endacott who after 44 years of Company service resigned as a Director and retired as an employee on July 1, 1967, his normal retirement date. Mr. Learned retired as an employee on his normal retirement date, November 1, 1967, after 43 years of Company service, but continued as a Director and Vice Chairman of the Board.

On November 1, 1967, Mr. H. B. Stead, 48, an employee 27 years, became Comptroller. He succeeded Mr. Henry W. Hinkle who retired on December 1, 1967, his normal retirement date, after 37 years of service.

TOP MANAGEMENT BACKGROUND . . . Mr. Keeler's Company background was in research, process engineering, and refinery management. He was Vice President, Refining, when, in 1951, he became a member of the Company's top management team. Mr. Keeler served in Washington for a year as Director of Refining, Petroleum Administration for Defense, was Chairman of the Military Petroleum Advisory Board for eight years, and headed the first U. S. Petroleum Industry Exchange

Delegation on a tour of Russia and its oil industry. Partially of Cherokee Indian extraction, for many years he has been Principal Chief of the Cherokee Indian Nation and active in their advancement.

Mr. Houchin's Company background was in oil and gas engineering, exploration, and production. He was General Superintendent of the Production Department when he entered into over-all Company management responsibilities in 1956 as Chairman of the Operating Committee. He is past Vice President for Production of the American Petroleum Institute and a member of the Board of Regents of the University of Oklahoma.

Mr. Hewitt's engineering and management experience was in our natural gas liquids, chemicals, and international activities. He has held general management responsibilities for 10 years. He serves on the U. S. Department of Interior's Foreign Petroleum Supply Committee and is a member of the Board of Directors of the National Safety Council.

Mr. Martin's background with Phillips was in accounting and finance. He had been Secretary and Treasurer of the Company three years when he became Senior Vice President in 1965. He is Vice President of the American Petroleum Institute's Finance and Accounting Division and a Director of the Institute.

Each of these men is deeply experienced in the full range of Phillips diverse activities, because each is or has been top management contact for a number of specific department heads and each on occasion acts for any of the other three.

PRINCIPAL SUBSIDIARIES AND AFFILIATES (Ownership one-third or more)

	PRINCIPAL BUSINESS	PRINCIPAL AREAS OF OPERATION	PER CENT OWNED
NORTH AMERICA			
Alamo Chemical Company	Helium	United States	100
Brown Machine Company of Michigan, Inc.	Plastic fabricating machinery	United States	50
Drilling Specialties Company	Drilling mud additives and cement sales	United States	100
Fibers International Corporation	Nylon manufacture	Puerto Rico	80
Kaw Pipe Line Company	Crude oil	Kansas	33⅓
Negromex, S.A.	Carbon black and synthetic rubber manufacture	Mexico	39
Pacific Petroleum Ltd.	Integrated production, manufacturing, and sales	Canada	45
Phillips Fibers Corporation	Fibers manufacture and sales	United States	80
Phillips Films Co., Inc.	Polyolefin film and bags, packaging machinery, vinyl sheet and film	United States	100
Phillips Investment Company	Real estate, buildings, investments	United States	100
Phillips Marketing Properties, Inc.	Sales facilities	United States	100
Phillips Pacific Chemical Company	Fertilizer manufacture	Northwestern U. S.	51
Phillips Pipe Line Company	Crude oil and products transportation	United States	100
Phillips Products Co., Inc.	Plastics custom molding and proprietary products and tubular goods	United States	100
Phillips Puerto Rico Core Inc.	Petrochemical manufacture	Puerto Rico	75
Phosphate Chemicals, Inc.	Acids and fertilizers	Texas	50
Plásticos Latino Americanos, S.A. de C.V.	Plastics fabrication and sales	Mexico	100
Productos Plásticos S.A.	Plastics fabrication and sales	Costa Rica	50
Puerto Rico Plastics Products Co., Inc.	Plastic bottles	Puerto Rico	50
Reda Pump Company	Oil well and water pumps	United States	37
Sealright Co., Inc.	Rigid packaging	United States	100
Seaside Oil Company	Refined products sales	Western U. S.	100
H. P. Smith Paper Co.	Coated and laminated flexible materials	United States	100
Wall Industries, Inc.	Rope, twine, yarn and tubular metal products	United States	100
Western Hemisphere Corporation	Tanker operations	United States	100
SOUTH AMERICA			
Companhia de Carbonos Coloidais (C.C.C.)	Carbon black manufacture	Brazil	50
Phillips Petrochemical Sales, Inc.	Chemical sales	South America and Southeast Asia	100
Phillips Petroleum International-Argentina, Inc.	Diversified sales	Argentina	100
Phillips Petroleum Ventas, S.A.	Diversified sales	Colombia	100
Phillips Petroquímica, S.A.	Carbon black manufacture	Colombia	100
Plásticos Venoco, C.A.	Plastics fabrication and sales	Venezuela	50
Produtos Petro-Químicos "66" Ltda.	Diversified sales	Brazil	100
Ultrafertil, S.A. Industria e Comercio de Fertilizantes	Fertilizer manufacture and sales	Brazil	60
Ultragaz, S.A.	LP-gas sales	Brazil	42
Venezoil, C.A.	Oil production	Venezuela	54
C. A. Venezolana Internacional de Productos Químicos	Chemical sales	Venezuela	100
EUROPE			
Badische-Phillips Petroleum N.V.	Plastics manufacture	Belgium	50
Calatrava, Empresa para la Industria Petroquímica, S.A.	Diversified chemical manufacture	Spain	42
Compagnie Française du Carbon Black, S.A.	Carbon black manufacture	France	50
Hannover Russ-GmbH	Carbon black manufacture	West Germany	50

OFFICES

PRINCIPAL OFFICES

Bartlesville, Oklahoma 74003
 80 Broadway, New York, New York 10005
 129 South State Street, Dover, Delaware 19901

STOCK TRANSFER OFFICES

Phillips Petroleum Company
 80 Broadway, New York, New York 10005
 Phillips Petroleum Company
 15 Exchange Place, Jersey City, New Jersey 07302

REGISTRAR

Manufacturers Hanover Trust Company
 40 Wall Street, New York, New York 10005

	PRINCIPAL BUSINESS	PRINCIPAL AREAS OF OPERATION	PER CENT OWNED
Kleber-Renolit Plastiques	Plastics manufacture and sales	France	35
Nordisk Philblack AB	Carbon black manufacture	Sweden	50
Nordisk Philpetrol AB	Diversified sales	Scandinavian countries	100
O'Brien Plastics Limited	Plastics fabrication and sales	Ireland	50
Petrochim, S.A.	Diversified chemical manufacture	Belgium	41
Phillips Calatrava Ventas, S.A.	Chemical sales	Spain	50
Phillips Carbon Black Italiana S.p.A.	Carbon black manufacture	Italy	50
Phillips-Fina S.p.A.	LP-gas sales	Italy	50
Phillips-Imperial Petroleum Limited	Crude oil refining	United Kingdom	50
Phillips Petroleum Company Europe-Africa	Management consultation and operations	Europe and Africa	100
Phillips Petroleum Company Netherlands	Exploration and production	The Netherlands	100
Phillips Petroleum Exploration U.K., Limited	Exploration and production	Offshore United Kingdom	100
Phillips Petroleum International A.G.	Diversified sales	Switzerland	100
Phillips Petroleum International A/S	Diversified sales	Norway	100
Phillips Petroleum International Belgium, S.A.	Diversified sales	Belgium	100
Phillips Petroleum International France	Diversified sales	France	100
Phillips Petroleum International GmbH	Diversified sales	West Germany	100
Phillips Petroleum International S.p.A.	Diversified sales	Italy	100
Phillips Petroleum Products Limited	Refined products sales	United Kingdom	100
Phillips Petroleum-U.K., Limited	Diversified sales	United Kingdom	100
Philmac Oils Limited	Asphalt refining and sales	United Kingdom	50
Plásticos Vanguardia, S.A.	Plastics fabrication and sales	Spain	50
Renolit-Fertighaus GmbH	Prefabricated buildings	West Germany	50
Società Italo Americana Petrochimici E Idrocarburi S.p.A.	Petrochemical sales	Italy	40
Società Petroliera Italiana S.p.A.	Natural gas, crude oil refining, and chemicals	Italy	53
Star Plastics Company Limited	Plastics fabrication and sales	Ireland	50
AFRICA			
Dodhia Plastica International Limited	Plastics fabrication and sales	Kenya	50
Phillips Carbon Black Company (Proprietary) Limited	Carbon black manufacture and sales	South Africa	50
Phillips Petroleum Company Algeria	Exploration and production	Algeria	100
Western Desert Operating Petroleum Company	Exploration and production	United Arab Republic	50
MIDDLE EAST			
American Independent Oil Company	Crude oil and products	Kuwait Neutral Zone	37
Phillips Petroleum Company Abu Dhabi	Exploration	Abu Dhabi	100
Phillips Petroleum Company Iran	Exploration	Persian Gulf	100
Phillips Plastex S.A.L.	Plastics fabrication and sales	Lebanon	60
AUSTRALIA AND FAR EAST			
AA Chemical Company	Carbon black manufacture and sales	Japan	50
Phillips Australian Oil Company	Exploration	Australia	100
Phillips Imperial Chemicals Limited	Carbon black and synthetic rubber manufacture	Australia	50
Phillips Petroleum International, Ltd.	Diversified sales	Japan	100
Phillips Sixty-Six Pty. Limited	Diversified sales	Australia	100
ACTIVITIES WORLD-WIDE			
Phillips Petroleum International Corporation	Diversified sales	World-wide	100*
Phillips Petroleum International Investment Company	Investments	Outside U. S.	100
Philtankers Inc.	Ocean tankships	World-wide	100

*common stock ownership

ANNUAL STOCKHOLDERS MEETING

The 1968 Annual Meeting of Stockholders will be held Tuesday, April 30, at 10 a.m., in the Adams Building at the Company's Bartlesville, Oklahoma, headquarters. Proxies for this meeting will be requested when the official Notice, Proxy Statement, and Proxy form are mailed to stockholders about April 1, 1968.

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